

VZCZCXYZ0000  
RR RUEHWEB

DE RUEHGB #1351/01 1441002  
ZNR UUUUU ZZH (CCY ADX6BCD4F MSI7349 540A)  
R 241002Z MAY 09 ZDS  
FM AMEMBASSY BAGHDAD  
TO RUEHC/SECSTATE WASHDC 3172  
INFO RUCNRAQ/IRAQ COLLECTIVE

UNCLAS BAGHDAD 001351

SIPDIS

C O R R E C T E D C O P Y (RENUMBER PARAGRAPH)

E.O. 12958: N/A

TAGS: PGOV ECON EAID EAGR

SUBJECT: RRT ERBIL -- AGRICULTURE POTENTIAL IN THE KURDISTAN REGION

This is an Erbil Regional Reconstruction Team (RRT) cable.

**¶1.** (U) SUMMARY: A recent study by the Monitor Group highlighted the potential for agriculture and processed foods to become a lucrative, employment-generating growth cluster in the Kurdistan Region. However, the mixed experience of one U.S. agribusiness investor (including difficulties in accessing raw materials) highlights some of the current challenges. The Kurdistan Regional Government (KRG) is eager to restore agriculture to the position it once held as the anchor of the Region's economy and has announced a five-year strategic plan aimed at bringing together KRG ministries, farmers and private sector investors in support of that goal. Transforming a sector dominated by small farms into a modern, agribusiness cluster will require targeted government support for infrastructure and extension and extensive private investment. END SUMMARY

**¶2.** (U) With an economy historically rooted in agriculture and animal husbandry, the Kurdistan Region (KR) boasts some of the most fertile land in Iraq. For decades, the KR provided vegetables, fruits and grain to the rest of Iraq and the wider region. However, the sector was decimated by the former regime's policy of destroying villages and relocating families to "collective towns" where they lost the use of their lands. The exclusively imported food provided in the UN/OFF Public Distribution System (PDS) dealt another blow to the region's farmers. Since that time, drought, antiquated training and isolation from modern agricultural techniques (such as drip irrigation, disease-resistant seeds and methods of processing) have impeded the recovery of the KR agricultural sector. Today, the KR agricultural sector is comprised of a few agro-businesses and 560,000 small-scale farmers producing limited amounts of cereals/grains, oil seeds and industrial crops, poultry and cattle, honey, vegetables, fruits and legumes. But local farmers are unable produce enough food to meet regional demand; the KR still imports at least 65% of the food that it consumes.

---

KRG Prepares for Agriculture to Take Center Stage

---

**¶3.** (U) In late 2008, the KRG announced that 2009 would be the "Year of Agriculture." The Kurdistan Regional Government (KRG) released a five-year, USD 10,221,297,000 strategic plan with input from the KRG Ministries of Agriculture, Trade, Industry and Water. Hoping to partner with the private sector to comprehensively revamp the agricultural sector of the KR, the plan enumerated some 1865 projects designed to increase overall agricultural output and put the KR on the path towards food security, self-sufficiency and ultimately to an economy that can export food to the rest of Iraq and the greater Middle East. The plan includes projects to improve the irrigation system of the KR, build cold-storage and processing facilities for leather, produce, grain and dairy products and improve domestic and international marketing of Kurdish agricultural products. Recognizing that the rest of Iraq is an excellent market for its goods, the KRG Ministry of Agriculture (MoA) is already working towards an agreement with the Government of Iraq (GoI) Ministry of Trade to use Kurdish chickpeas and lentils rather than imported products in the national PDS baskets. How much of

this ambitious plan will be implemented will depend on the KRG's success in securing the necessary funds. The plan was designed during a period of record high oil prices. Budget allocations for infrastructure will be adversely affected by decreases in oil. Infrastructure will be adversely affected by decreases in oil revenues and the resultant decrease in the regional budget for 2009.

**¶4.** (U) In an effort to bring modern agricultural technology to the KR and encourage private sector investment in the industry, the KRG has hosted two agricultural expositions in Erbil since the strategic plan was released. The first expo included a majority of foreign vendors, while the second was billed as a "local agrofair."

Hundreds of vendors from Lebanon, Turkey, Iran, the UAE, as well as other parts of Iraq, displayed products such as fertilizers, hybrid seeds, drip irrigation systems, tractors and machinery, greenhouses, and processing services for poultry, meat, fish and dairy items. There is a market for such items, but the initial capital investment needed to purchase such items is beyond the reach of many farmers. Agriculture Ministry Director General (DG) Yahya informed RRTOff that once a budget is allocated, his office hopes to be able to operate an agricultural bank to which farmers will be able to apply for loans up to USD 50,000 (based on approved business plans.) Until this plan is approved, some Kurdish farmers have begun to pool their assets and collectively finance big-ticket items.

---

#### The Vanguard: Private Investors Working in Agriculture

---

**¶5.** (U) Private investors (both foreign and local) are beginning to tap into the KR's agricultural potential, but are facing challenges to their efforts. Private equity fund Marshall Fund is renovating a local tomato and fruit processing plant in Harir, Sulaimaniyah Province. Marshall Fund executives note that, aside from irregular electricity, it has been difficult to convince local farmers to change their focus from immediate consumption-focused (e.g., table-ready produce) to process-focused (e.g., produce grown to be processed into paste or juice) farming. The Marshall Fund has also struggled with getting the KRG to deliver on the cooperation it has promised to them and their contract farmers. In one case, the KRG promised to give a certain amount of fertilizer and pesticides to farmers who signed contracts to grow raw products for the Marshall Fund. The KRG ultimately failed to deliver and at the last minute, the Marshall Fund was forced to pay for those chemicals out of its operational budget. Despite these challenges, Marshall Fund executives believe that these costs are well worth the benefit they expect to receive both this year and further down the road. The company is already considering ways to expand into the other provinces of the KR.

---

#### No Easy Row to Hoe

---

**¶6.** (U) Farmers in the Kurdistan Region cite many barriers to making agriculture a profitable and sustainable venture, including:

- Antiquated agricultural technology, growing methods and pest control methods: The KRG has established agricultural training offices throughout the Region which function as extension agencies, but farmers and officials say that those offices are under-resourced. Farmers confirm that crops are not rotated so as to provide a steady stream of produce throughout the year, causing gluts in the market. Cold-chain storage requires the 24-hour availability of electricity, which is still not available in the majority of the KR.

- The inability of local producers to compete with the cheap imported produce: said Abdulsatar Hussein, an apple farmer in the Amedi district of Dohuk Province, "Turkish and Iranian products are a real challenge to our products. People prefer the products from Kurdistan because they know no harmful chemicals are used. But the low prices of the Turkish and Iranian products, plus the continuous availability of all types of fruits and vegetables, cause local farmers to stop trying to compete." Contacts confirm that imported produce dominates the market. Farmers say that the combined cost of harvest, fuel, and transportation are high enough to discourage the effort associated with getting local produce to market, leading to the rotting of tons of produce in the fields of the KR. To protect the local poultry industry, the KRG recently

announced a number of measures to curb imports, including taxes on poultry meat and egg imports, and increased controls at border points.

- A dying farming culture: Governmental and private contacts confirm that the future of agricultural industry is at risk because many young people would prefer to work in government offices rather than their fathers' fields. Furthermore, farming villages frequently lack secondary schools, hospitals/clinics and other resources that growing families need. Local university faculty members express the concern that agriculture is considered an inferior major to engineering, medicine or law because students do not believe that they can earn money as farmers. The aversion to studying agriculture will result in a dearth of scientifically trained, local agronomists who will be able to maintain and improve the sector's competitiveness within the greater Middle Eastern economy.

- Drought and poor irrigation systems. Contacts report that the annual level of precipitation received in the KR has steadily decreased for the past decade. This crop cycle the province has only received about half of this declining mean. According to the DG of Agriculture for Semel district of Dohuk, Semel's grain farmers QDG of Agriculture for Semel district of Dohuk, Semel's grain farmers lost a cumulative amount equal to what they earned in 2007. The problem is further exacerbated by the scarcity of efficient forms of irrigation, such as drip and spray irrigation. According to the KRG MoA, only 413,669 acres of the KR's 3,795,029 acres of arable land are currently irrigated.

-----  
Monitor Group Touts Agriculture  
-----

¶7. (U) A recent KRG-commissioned study on private sector growth potential in the Kurdistan Region completed by the Monitor Group (associated with competitiveness "guru" Michael Porter) highlighted two sectors in the KR as having strong growth potential: construction and construction materials and agriculture products and food processing. The study examined demand in Iraq and the region, looked at the region's competitive advantage, and focused on those areas with potential for high-employment and high growth. The study will be used by the Enterra Group (under contract to the KRG) to develop foreign investment strategies.

-----  
COMMENT  
-----

¶8. (U) The potential for agriculture is clear, and the fact that the KRG is putting its own money into market research and efforts to attract private sector investors is a positive sign. A viable agricultural industry will help diversify the economic (exclusively dependent on oil revenues) and encourage a shift away from public sector employment to more productive areas. The real challenge for the KRG will be getting the government side of the equation right (particularly in a tough budget year and given the low levels of capacity at the Ministry of Agriculture). At the university level, there are already promising signs of cooperation with U.S. universities, such as the recent (privately sponsored) visit of a delegation from Texas A & M University to Erbil.

¶9. (U) The USAID-funded Inma program has recently stepped up its activities in the Kurdistan Region and is focusing on providing capacity building and training for farmers in horticulture. Inma also offers some microloans to farmers and small businesses to encourage local investment in crop production and post-harvest processing. Under USDA's Iraq Agriculture Extension Revitalization training program, 10 officials from KR provinces will go to U.S. Land Grant Universities for short-term training in agriculture extension and new agriculture production techniques. These are positive steps, given the fact that heretofore USG agricultural assistance programs have been largely absent from the region.

HILL